KPMG LLP
Suite 1900
440 Monticello Avenue
Norfolk, VA 23510

December 23, 2015

The Honorable Members of City Council
City of Norfolk, Virginia

Ladies and Gentlemen:

We have audited the financial statements of the City of Norfolk, Virginia (the City) as of June 30, 2015, and have issued our report thereon under date of December 23, 2015. Under our professional standards, we are providing you with the accompanying information related to the conduct of our audit.

Our Responsibility under Professional Standards

We are responsible for forming and expressing an opinion about whether the financial statements, which have been prepared by management with the oversight of City Council, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. We have a responsibility to perform our audit of the financial statements in accordance with auditing standards generally accepted in the United States of America. In carrying out this responsibility, we planned and performed the audit to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether caused by error or fraud. Because of the nature of audit evidence and the characteristics of fraud, we are to obtain reasonable, not absolute, assurance that material misstatements are detected. We have no responsibility to plan and perform the audit to obtain reasonable assurance that misstatements, whether caused by error or fraud, that are not material to the financial statements are detected. Our audit does not relieve management or City Council of their responsibilities.

In addition, in planning and performing our audit of the financial statements, we considered internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

We also have a responsibility to communicate significant matters related to the financial statement audit that are, in our professional judgment, relevant to the responsibilities of City Council in overseeing the financial reporting process. We are not required to design procedures for the purpose of identifying other matters to communicate to you.

KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.

Other Information in Documents Containing Audited Financial Statements

The City's management included our audit report in the City's Comprehensive Annual Financial Report (CAFR). The CAFR contains various other financial and statistical information that we were not engaged to audit, and accordingly, is not covered in our opinion. Our responsibility for other information in documents containing the City's financial statements and our auditors' report thereon does not extend beyond the financial information identified in our auditors' report, and we have no obligation to perform any procedures to corroborate other information contained in these documents. We have, however, read the other information included in the City's CAFR, and no matters came to our attention that cause us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

Accounting Practices and Alternative Treatments

Significant Accounting Policies

The significant accounting policies used by the City are described in note 1 to the financial statements. As described in the financial statements, in order to comply with the requirements of U.S. generally accepted accounting principles, the City adopted GASB 68, *Financial Reporting for Pensions*, and GASB 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

Qualitative Aspects of Accounting Practices

We have discussed with the City Council and management our judgments about the quality, not just the acceptability, of the City's accounting principles as applied in its financial reporting. The discussions generally included such matters as the consistency of the City's accounting policies and their application, and the understandability and completeness of the City's financial statements, which include related disclosures.

Management Judgments and Accounting Estimates

The preparation of the financial statements requires management of the City to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period.

Self-Insurance Liabilities

Management's estimates of self-insurance liabilities of workers' compensation claims, general liabilities, and employer sponsored healthcare benefits are based upon reviews of claims listing, actuarial analyses of external actuaries, and historical trends.

Retirement Obligations

Management's estimates of pension liabilities and other postemployment obligations are based upon current and retiree payroll, demographic information, and actuarial analyses of external actuaries.

We have evaluated key factors or assumptions used to develop significant accounting estimates, including possible management bias in developing the estimates, and determined that they were reasonable in relation to the financial statements taken as a whole.

Corrected Misstatements

During the course of our audit, we identified and discussed with management immaterial financial statement misstatement that were corrected by the City. Attached is a copy of the corrected misstatements that have been discussed with management and corrected by the City.

Disagreements with Management

There were no disagreements with management on financial accounting and reporting matters that would have caused a modification of our auditors' reports on the City's financial statements, except as follows.

Management's Consultation with Other Accountants

To the best of our knowledge, management has not consulted with or obtained opinions, written or oral, from other independent accountants during the year ended June 30, 2015.

Significant Issues Discussed, or Subject to Correspondence, with Management

Major Issues Discussed with Management prior to Retention

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to our retention by City Council as the City's auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition to our retention.

Material Written Communications

Attached to this letter please find copies of the following material written communications between management and us:

1. Original engagement contract

2. Agreement for renewal #3 for the fiscal year 2015 audit fees

3. Management representation letters

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management in performing our audits. We appreciate the cooperation and assistance we received from management in performing the audits.

Independence

Our professional standards and other regulatory requirements specify that we communicate to you in writing, at least annually, all relationships between our firm and the City and persons in a financial reporting oversight role at the City and provide confirmation that we are independent accountants with respect to the City as of December 23, 2015.

We are not aware of any relationships between our firm and the City and persons in a financial oversight role at the City.

With respect to the City, we are independent accountants within the meaning of Rule 101 of the American Institute of Certified Public Accountants Code of Professional Ethics and related interpretation and *Government Auditing Standards*, issued by the U.S. government Accountability Office.

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This letter to the City Council is intended solely for the information and use of the City Council and management, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP

AGREEMENT WITH KPMG LLP
FOR THE PERFORMANCE OF ANNUAL AUDIT SERVICES

This **AGREEMENT** made this 6 day of July 2012, between the **CITY OF NORFOLK, VIRGINIA,** a municipal corporation chartered by the Commonwealth of Virginia, hereinafter referred to as the **"City"** and **KPMG LLP, 440 Monticello Avenue, Suite 1900, Norfolk, Virginia 23510,** hereinafter referred to as the **"Auditor."**

WITNESSETH:

That for and in consideration of the services to be rendered and the sums of money to be paid hereinafter set forth, said parties do hereby and agree as follows:

FIRST: The City and Auditor agree that the Auditor shall perform audits in accordance with generally accepted auditing standards of the financial statements of the entities enumerated below, in accordance with the City's Request for Proposals No. 4063-0-2012/ARB, issued March 28, 2012 (Exhibit 1) and the Auditor's Proposal dated April 20, 2012 (Exhibit 2), copies of which are attached hereto and incorporated by reference. In the event of conflict between this Agreement and the Exhibits, this Agreement shall govern.

The services shall be provided pursuant to Sections 66 and 99 of the Norfolk Charter of 1918, and shall cover the fiscal year from July 1, 2011 to, and including, June 30, 2012 for:

1. City of Norfolk:
   - General Fund
   - Special Revenue Funds
   - Debt Service Fund
   - Capital Projects Fund
   - Enterprise Funds (Water Utility, Wastewater Utility, and Parking Facilities)
   - Internal Service Funds
   - Fiduciary Funds
   - Constitutional Officers

2. School Board of the City of Norfolk
   - School Operating Fund
   - School Child Nutrition Fund
   - School Special Revenue Funds
   - School Capital Projects Fund
   - School Agency Fund

3. (ERS) Employees' Retirement System of the City of Norfolk

4. (EDA) Economic Development Authority of the City of Norfolk

5. (NCSB) Norfolk Community Services Board

6. Waterside Associates Limited Partnership

7. Agreed upon procedures for the Norfolk Sheriff's Office Jail Canteen Fund, as required by the Auditor of Public Accounts (APA), Commonwealth of Virginia, specifications for Counties, Cities and Towns

8. Agreed upon procedures with respect to selected records and transactions pertaining to the Campostella Landfill to comply with the Local Government Financial Test, financial component section of Va. Admin. Code §9 VAC20-70-210. Va.

The City and the Auditor agree that this Agreement shall not cover the audit of the following related organizations:

- Norfolk Redevelopment and Housing Authority;
- Norfolk Airport Authority; and
- The Chrysler Museum, Inc.

The Auditor is responsible for the issuance of separate, individual auditor's reports due no later than December 28, 2012 for the City's Water Utility Fund, the City's Wastewater Utility Fund, the City's Parking Facilities Fund, the School Board of the City of Norfolk, the Employees' Retirement System of the City of Norfolk, the Economic Development Authority of the City of Norfolk, and the Norfolk Community Services Board.

The objective of an audit is the expression of the Auditor's opinion as to whether the financial statements fairly present, in all material respects, the financial position, results of operations and cash flows of the proprietary and similar trust funds of the City, the School Board of the City of Norfolk, the Employees' Retirement System of the City of Norfolk, the Economic Development Authority of the City of Norfolk, and Norfolk Community Services Board.

The objective of an audit is the expression of the Auditor's opinion as to whether the financial statements, that have been prepared by management with the oversight of those charged with governance, fairly present, in all material respects, the financial position, results of operations and cash flows of the proprietary and similar trust funds of the City, the School Board of the City of Norfolk, the Employees' Retirement System of the City of Norfolk, the Economic Development Authority of the City of Norfolk, and Norfolk Community Services Board. Should the City wish to include or incorporate by reference the financial statements and the Auditor's report(s) thereon into an offering of exempt securities, prior to the Auditor consenting to include or incorporate by reference the Auditor's report(s) on the financial statements, the Auditor would consider consenting to the inclusion of the Auditor's report(s) and the terms thereof at that time. The Auditor will be required to perform procedures as required by the standards of the American Institute of Certified Public Accountants, including, but not limited to, reading other information incorporated by reference in the offering document and performing subsequent event procedures. The Auditor reading of the other information included or incorporated by reference in the offering document will consider whether such information, or the manner of its presentation, is materially inconsistent with information, or the manner of its presentation, appearing in the financial statements. However, the Auditor will not perform procedures to corroborate such other information (including forward-looking statements). The specific terms of future services with respect to future offering documents will be determined at the time the services are to be performed.

Should the City wish to include or incorporate by reference financial statements and the Auditor's report(s) thereon into an offering of exempt securities without obtaining consent to include or incorporate by reference the Auditor's report(s) on financial statements, and the Auditor is not otherwise associated with the offering document, then the City agrees to include the following language in the offering document:

> "KPMG LLP, our independent auditor, has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. KPMG LLP also has not performed any procedures relating to this official statement."

Additionally, if and when the City, the School Board of the City of Norfolk, the Employees' Retirement System of the City of Norfolk, Economic Development Authority of the City of Norfolk, and the Norfolk Community Services Board intend to publish or otherwise reproduce the aforementioned financial statements and make reference to the name of the Auditor's firm or to its audit, the City agrees to provide the Auditor with printer's proofs or masters for the Auditor's review and consent before printing. The City, the School Board of the City of Norfolk, the Employees' Retirement System of the City of Norfolk, Economic Development Authority of the City of Norfolk, and the Norfolk Community Services Board also agrees to provide the Auditor with a copy of the final reproduced material when distributed. The fee structure for these additional services is described in the **NINETEENTH** section of this Agreement

The Auditor also will read the other information included in the Comprehensive Annual Financial Report (CAFR) of the City, the School Board of the City of Norfolk, and the Employees' Retirement System of the City of Norfolk in which the financial statements are presented and consider whether such information, including the manner of its presentation, is materially consistent with information appearing in the financial statements. However, the Auditor will not provide an opinion on the Introductory Section, Management's Discussion and Analysis or Statistical sections of the CAFR for the City, the School Board of the City of Norfolk, or the Employees' Retirement System of the City of Norfolk. (Note: This paragraph also applies to official statements, which include the audited financial statements.)

We cannot provide assurance that unqualified opinions will be rendered. If, during the performance of our audit procedures, circumstances arise which make it necessary to modify our report or withdraw from the engagement, we will communicate to the City Council and related Audit Committee our reasons for withdrawal.

The audits shall be conducted and the audit reports shall be prepared and issued pursuant to the following requirements:

1. Governmental Accounting Standards Board;

2. Auditing standards generally accepted in the United States of America;

3. Government Auditing Standards issued by the U.S. Comptroller General;

4. The provisions of the Office of Management and Budget (OMB) *Compliance Supplement for Single Audits of State and Local Governments*;

5. Guidelines set forth in OMB Circular A-133, Audits of State, Local Governments and Non-Profit Organizations;

6. Single Audit Act, as amended;

7. The Auditor of Public Accounts (APA), Commonwealth of Virginia, Uniform Financial Reporting Manual;

8. The Auditor of Public Accounts (APA), Commonwealth of Virginia, Specifications for Audits of Counties, Cities and Towns;

9. The Auditor of Public Accounts (APA), Commonwealth of Virginia, Specifications for audits of Counties, Cities and Towns;

10. AICPA Audit and Accounting Guide for Health Care Organizations, and the Specifications for Audits of Authorities, Boards and Commissions issued by the APA, Commonwealth of Virginia;

11. Financial Management Standards Guide issued by Virginia Department of Mental Health, Mental;

12. Virginia Administrative Code § 9 VAC20-70-210.

Those standards, circulars, supplements or guides require that the Auditor plan and perform the audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement whether caused by error, fraud or misappropriation of assets. Absolute assurance is not attainable because of the nature of audit evidence and the characteristics of fraud. Therefore, there is a risk that material errors, fraud (including fraud that may be an illegal act), and other illegal acts may exist and not be detected by an audit of financial statements performed in accordance with the auditing standards generally accepted in the United States of America. Also, an audit is not designed to detect matters that are immaterial to the financial statements, and because the determination of abuse is subjective, *Government Auditing Standards* does not expect auditors to provide reasonable assurance of detecting abuse. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The Auditor believes that the audit will provide a reasonable basis for the Auditor's reports.

In planning and performing our audit of the financial statements, the Auditor will consider the City's internal control over financial reporting as a basis for designing audit procedures for the purpose of expressing an opinion on the financial statements and not to provide an opinion on the effectiveness of the City's internal control over financial reporting. In accordance with *Government Auditing Standards*, the Auditor is required to communicate that the limited purpose of our consideration of internal control may not meet the needs of some users who require additional information about internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, the Auditor will perform tests of the City's compliance with certain

provisions of laws, regulations, contracts and grant agreements, violations of which could have a direct and material effect on the financial statements. However, our objective is not to provide an opinion on compliance with such provisions.

In accordance with *Government Auditing Standards*, the Auditor will prepare a written report, *Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards* (GAGAS report), on our consideration of internal control over financial reporting and tests of compliance made as part of our audit of the financial statements. While the objective of our audit of the financial statements is not to report on the City's internal control over financial reporting and the Auditor is not obligated to search for significant deficiencies or material weaknesses as part of our audit of the financial statements, this report will include any significant deficiencies and material weaknesses to the extent they come to our attention. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected on a timely basis. This report will also include illegal acts and fraud, unless clearly inconsequential, and material violations of abuse and provisions of contracts and grant agreements. It will indicate that it is intended solely for the information and use of the audit committee and management of the City and federal awarding agencies and pass-through entities and that it is not intended to be and should not be used by anyone other than these specified parties.

In accordance with *Government Auditing Standards*, the Auditor will also issue a management letter to communicate violations of provisions of contracts or grant agreements or abuse that has an effect on the financial statements that is less than material but more than inconsequential that comes to our attention.

In accordance with *Government Auditing Standards*, the Auditor is also required in certain circumstances to report fraud or illegal acts directly to parties outside the City. The Auditor will report to the City Auditor, the City Director of Finance, and the Norfolk Public Schools Associate Superintendent of Finance immediately any material errors, fraud or violations that comes to its attention during the course of the audits.

In accordance with *Government Auditing Standards*, as part of our planning of the audit the Auditor will evaluate whether the City has taken appropriate corrective action to address findings and recommendations from previous engagements that could have a material effect on the financial statements. To assist us, management agrees to identify previous audits, attestation engagements, or other studies that relate to the objectives of the audit, including whether related recommendations have been implemented, prior to June 30, 2012.

The above audits shall include an audit of the records maintained for federal financial assistance programs, including all funds received from the Commonwealth of Virginia, in accordance with the Single Audit Act, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. With respect to the federal and state financial assistance programs in which the City participates, the City will prepare the Schedule of Expenditures of Federal Awards.

The City's audits shall also include, if material, the accounts and records of the constitutional officers, with the exception of the Clerk of the Circuit Court's revenues and the constitutional officers' collection of state funds for the Commonwealth of Virginia.

The Auditor will perform agreed-upon procedures relative to the financial component, financial ratios and other requirements of the below mentioned regulation and issue a report regarding the City of Norfolk's statement of its compliance with Department of Environmental Quality regulations related to the Local Government Financial Test requirements for municipal landfills, as specified in Va. Admin. Code §9 VAC20-70-210 for the year ended June 30, 2005. Thereby, the Auditor shall perform specific procedures for the City of Norfolk with respect to selected records and transactions that will be reviewed on the Campostella Landfill to comply with the Local Government Financial Test, financial component section of Va. Admin. Code §9 VAC20-70-210.

The agreed-upon procedures projects included in this contract will be performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users (e.g., the City and the Commonwealth of Virginia) of the reports. Consequently, the Auditor makes no representation regarding the sufficiency of the procedures either for the purpose for which our report is being prepared or for any other purpose.

Because the agreed-upon procedures referred to above do not constitute an audit, the Auditor will not express an opinion on any of the items. The reports will include a statement to that effect. In addition, the Auditor has no obligation to perform any procedures beyond those referred to in the reports.

The reports will include a list of the procedures performed and the related findings. The reports will also contain a paragraph indicating that had the Auditor performed additional procedures, other matters might have come to its attention that would have been reported to you. The Auditor has no responsibility to update the reports for events and circumstances occurring after the date of such report.

The reports are intended solely for the use of the specified users, and are not intended for use by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. If the City requests that additional specified users of the report be added, the Auditor will require that they acknowledge, in writing, their agreement with the procedures and their responsibility for the sufficiency of the procedures for their purposes.

If the Auditor is unable to complete the agreed-upon procedures projects referred to above, we will discuss the matter with the City during the engagement. In such circumstances, the Auditor may conclude that cannot issue a report as a result of the engagement.

Because of the importance of management's representations to the effective performance of our services, the City hereby releases KPMG and its personnel from and against any claims, liabilities, costs, and expenses relating to our services under this agreement attributable to any misrepresentations in the representation letter. In accordance with the foregoing release, KPMG shall not be responsible for any damages suffered or incurred by the City that are attributable to any misrepresentations in the representation letter or any damages that are punitive in nature, or

that are not measured by the City's actual damages. The provisions of this paragraph shall apply regardless of the form of action, damage, claim, liability, cost, expense, or loss asserted, whether in contract, statute, tort (including but not limited to negligence) or otherwise.

To the extent permitted by law, the City will indemnify, defend, and hold KPMG and its personnel harmless from and against any and all claims, liabilities, costs, and expenses asserted against KPMG by any third party to the extent resulting from or attributable to that party's use or possession of, or reliance upon, KPMG's report or other reference to KPMG's services hereunder as a result of City's disclosure of such report or reference thereto other than to the specified user(s). The foregoing indemnification obligation shall apply regardless of whether the third party claim alleges a breach of contract, violation of statute or tort (including without limitation negligence) by KPMG.

KPMG-controlled entities and KPMG member firms located outside the United States operating under the Auditor's supervision may also participate in providing the services described in this agreement, and the Auditor uses administrative services operating at our direction, including third parties inside and outside the U.S., that may access your information to perform administrative and clerical procedures. The Auditor is satisfied that they have appropriate procedures in place, including confidentiality agreements, to prevent the unauthorized release of the City's confidential information to others.

The Auditor is a limited liability partnership comprising both certified public accountants and certain principals who are not licensed as certified public accountants. Such principals may participate in the engagements to provide the services described in this letter.

The management of the City of Norfolk, the School Board of the City of Norfolk, the Employees' Retirement System of the City of Norfolk, the Economic Development Authority of the City of Norfolk, the Norfolk Community Services Board, and the Norfolk Sheriff are responsible for:

1) the preparation of their respective financial statements and supporting working papers, the schedule of federal awards, and jail canteen fund activity report, except as indicated otherwise in this Agreement;

2) establishing and maintaining effective internal control over financial reporting and compliance and safeguarding assets, and for informing the Auditor of all significant deficiencies in the design or operation of such controls of which they have knowledge, and internal control over compliance;

3) properly recording transactions in the records;

4) identifying and ensuring compliance with the laws and regulations applicable to their activities, and for informing the Auditor about all known material violations of such laws or regulations;

5) the design and implementation of programs and controls to prevent and detect fraud, and for informing the Auditor about all known or suspected fraud affecting the entity

involving management, employees who have significant roles in the internal control and others where the fraud could have a material effect on the financial statements;

6) informing the Auditor of their knowledge of any allegations of fraud or suspected fraud affecting their respective entities received in communications from employees, former employees, regulators, or others;

7) making all financial records and related information available to the Auditor;

8) adjusting the financial statements to correct material misstatements;

9) following up and taking corrective action on audit findings including the preparation of a summary schedule of prior audit findings and a corrective action plan;

10) submitting the reporting package, and

11) preparing the Comprehensive Annual Financial Report in accordance with GAAP as applicable.

The completion of items 1-11 above and the assistance described in the **FIFTH** section of this Agreement completely and accurately and in accordance with the deadlines established throughout this Agreement is essential to the ability of the auditor to complete the audit in accordance with the Agreement and failure to do so may result in additional billings related to such delays as discussed in the **TWELFTH** section of this Agreement.

SECOND: The Auditor will also perform audit procedures with respect to the City's major federal programs in accordance with the provisions of OMB Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133). OMB Circular A-133 includes specific audit requirements, mainly in the areas of internal control and compliance with laws, regulations, contracts, and grant agreements that exceed those required by *Government Auditing Standards*.

As part of the audit procedures performed in accordance with the provisions of OMB Circular A-133, the Auditor will perform tests to evaluate the effectiveness of the design and operation of internal controls that it considers relevant to preventing or detecting material noncompliance with laws, regulations, contracts, and grant agreements applicable to each of the City's major programs. The tests of internal control performed in accordance with OMB Circular A-133 are less in scope than would be necessary to render an opinion on internal control.

Compliance with laws, regulations, contracts, and grant agreements applicable to federal programs is the responsibility of management. The Auditor will perform tests of the City's compliance with certain provisions of laws, regulations, contracts, and grant agreements THE AUDITOR determines to be necessary based on the *OMB Circular A-133 Compliance Supplement (Compliance Supplement)*. The procedures outlined in the *Compliance Supplement* are those suggested by each federal agency and do not cover all areas of regulations governing each program. Program reviews by federal agencies may identify additional instances of noncompliance.

As required by OMB Circular A-133, the Auditor will prepare a written report which provides an opinion on the schedule of expenditures of federal awards in relation to the City's financial statements. In addition, THE AUDITOR will prepare a written report (A-133 report) which 1) provides our opinion on compliance with laws, regulations, contracts, and grant agreements that could have a direct and material effect on a major federal program and 2) communicates our consideration of internal control over major federal programs. The A-133 report will indicate that it is intended solely for the information and use of the audit committee and management of the City and federal awarding agencies and pass-through entities and that it is not intended to be and should not be used by anyone other than these specified parties.

In compliance with OMB Circular A-133, the City shall prepare the summary schedule of prior audit findings and corrective action plan for inclusion in the CAFR, and the Data Collection Form for submittal to the federal clearinghouse designated as prescribed by OMB. This form states that the audit was completed in accordance with this circular, and provides information about the City, its federal programs, and the results of the audit. The Auditor shall review and complete applicable sections of the Data Collection Form, and certify the auditor submission

THIRD: The books and records of all of the funds of the City of Norfolk, the School Board of the City of Norfolk, the Employees' Retirement System of the City of Norfolk, the Economic Development Authority of the City of Norfolk, and the Norfolk Community Services Board shall be closed by August 20, 2012.

Preliminary exhibits, schedules, statements and tables for the accounts of all the funds and note disclosures of the City of Norfolk, the School Board of the City of Norfolk and the Employees' Retirement System of the City of Norfolk, the Economic Development Authority of the City of Norfolk, and the Norfolk Community Services board shall be compiled by personnel of the entities being audited. The Auditor shall also prepare such preliminary exhibits, schedules and statements, based upon the workpapers prepared by the City, as may be required by the Auditor of Public Accounts, Commonwealth of Virginia.

The work papers prepared by the City of Norfolk, the School Board of the City of Norfolk the Employees' Retirement System of the City of Norfolk, the Economic Development Authority of the City of Norfolk, and the Norfolk Community Services Board shall be prepared in accordance with a mutually agreed upon schedule with the Auditor. All such workpapers and schedules shall be provided to the auditor no later than the first day of fieldwork for each entity unless notification is given to the auditor a minimum of 5 business days in advance of the first day of fieldwork and the parties agree to an extension of time. A complete set of financial statements for each entity that prepares its own statements (with the exception of the retirement system as discussed below) will be provided no later than the beginning of the second week of fieldwork unless the parties agree to an extension of time. For the Employees' Retirement System, the financial statements will be provided based on an agreed upon schedule depending on the receipt of actuarial and other information required to complete the statements. The Auditor of Public Accounts, Commonwealth of Virginia requires final audited financial statements of Boards, Authorities and Commissions to be submitted to them no later than ninety (90) days following the fiscal year end.

The work papers for this engagement are the property of KPMG. In the event KPMG is requested pursuant to subpoena or other legal process to produce its documents and/or testimony

relating to this engagement for the City in judicial or administrative proceedings to which KPMG is not a party, the City shall reimburse KPMG at standard billing rates for its professional time and expenses, including reasonable attorney's fees, incurred in responding to such requests. The City Auditor will be informed of any subpoena or legal requests for access to the audit workpapers prior to making them available to requesting parties, unless such notification is prohibited by law or regulation.

The Comparative Cost Report Transmittal Forms and supporting workpapers shall be prepared by the City of Norfolk and shall be provided to the Auditor on a timely basis for review by November 30, 2012. The Auditor shall also provide an accompanying letter on agreed upon procedures to help the City assess whether the transmittal forms are in conformity, in all material respects, with specified requirements as set forth in the Auditor of Public Accounts, Commonwealth of Virginia's Uniform Financial Reporting Manual.

Clerical (typing and proofreading) and reproduction (copying) services shall be provided by the Auditor to prepare one copy of each Independent Auditor's Report to be delivered to the City, the School Board of the City of Norfolk, the Norfolk Community Services Board, the Employees' Retirement System of the City of Norfolk and the Economic Development Authority of the City of Norfolk. Preliminary drafts of the Independent Auditor's Report shall be delivered to each entity for review prior to final production. The completed Independent Auditor's Reports shall be delivered and issued to each entity, the City Auditor and the Director of Finance under separate covers. Clerical and reproduction services of all exhibits, schedules, statements and tables for inclusion in the City's CAFR will be performed by the City, the School Board of the City of Norfolk's and the Employees' Retirement System of the City of Norfolk.

FOURTH: The period of performance for this Agreement shall be in effect from July 1, 2012 through June 30, 2013, unless sooner terminated due to breach, failure to perform or default. In the event of breach, default or failure to perform, this Agreement may be terminated if twenty (20) days written notice is given to the other party identifying the alleged breach, default, or failure to perform giving rise to the intent to terminate and the specified breach, default or failure to perform is not cured within the twenty-day period. This Agreement may be renewed by the City for up to three (3) additional one (1) year terms by written notice by the City to the Auditor under the same terms and conditions unless otherwise agreed upon in writing by the parties; however, annual fee increases are not to exceed four percent (4%) or the Consumer Price Index plus one percent (1%), whichever is lower, of sums contained in the **TWELFTH** paragraph may be agreed to in writing by the parties. The Auditor shall begin preliminary planning and fieldwork in connection with the performance of annual audit services at a mutually convenient time, with adequate working space to be made available to the Auditor during fieldwork.

FIFTH: The personnel of the City of Norfolk, the School Board of the City of Norfolk, the Employees' Retirement System of the City of Norfolk, the Economic Development Authority of the City of Norfolk, the Norfolk Community Services Board, and the Norfolk Sheriff shall provide reasonable assistance to the Auditor which will include, but not be limited to: (1) the preparation and proofing of drafts of the financial statements, schedules, working papers, account analyses and any other client assistance schedules as are currently being provided (except as specified herein); (2) such schedules, working papers, account analyses and any other client assistance schedules shall be provided on a computer disk file which can be converted to

Excel; (3) any consultation relating to systems, procedures, regulations, internal accounting controls, individual transactions, balances, etc.; (4) any clerical assistance for preparing and typing confirmation requests and other correspondence, pulling and refiling invoices, vouchers and other documents; and (5) the use of photocopying equipment.

SIXTH: That, so long as the City of Norfolk personnel meet the deadlines specified in the **THIRD** section above, the Auditor shall endeavor to complete all essential fieldwork and workpaper review required in connection with the audits of the financial statements of the City of Norfolk by November 30, 2012. One camera-ready copy of the City's CAFR shall be prepared by the City Controller, and submitted for print by November 30, 2012, time being of the essence in this Agreement. Should City personnel not comply with the deadlines specified in the **THIRD** section above, or otherwise not provide cooperation necessary for the Auditor to perform its services, the Auditor shall be permitted an extension of the deadline for completion of the fieldwork and workpaper review required in connection with the audits of the financial statements included in the CAFR. The length of the extension shall be subject to the written approval of the City Auditor, based on periodic consultation with the Director of Finance and the City Auditor on the status and progress of the audits, and shall be for a period of time commensurate with the time by which City personnel missed specific deadlines or otherwise caused the delay in the performance of services by the Auditor. The Auditor's Report on Agreed-Upon Procedures pertaining to the confirmation of compliance with the Department of Environment Quality Financial Assurance regulations for local governments who own or operate municipal solid waste landfills for the year ended June 30, 2012, will be provided to the Director of Finance and City Auditor no later than December 12, 2012 and will outline the procedures performed and findings and observations resulting from the procedures performed.

SEVENTH: As long as the personnel of the School Board of the City of Norfolk, the Economic Development Authority of the City of Norfolk, the Norfolk Community Services Board, and the Employees' Retirement System of the City of Norfolk, meet the deadlines specified in the **THIRD** section above, the Auditor shall endeavor to complete all essential fieldwork and workpaper review required in connection with the audits of the financial statements of the Economic Development Authority of the City of Norfolk and the Norfolk Community Services Board on or before October 24, 2012; the School Board of the City of Norfolk on or before November 30, 2012; the Employees' Retirement System of the City of Norfolk on or before December 12, 2012; and audit of the Norfolk Sheriff's Office Jail Canteen Fund on or before November 12, 2012. The final reports on the audited financial statements of the School Board of the City of Norfolk, the Economic Development Authority of the City of Norfolk, the Norfolk Community Services Board, and the Norfolk Sheriff's Office Jail Canteen Fund shall be delivered to these entities, the Director of Finance and the City Auditor on or before November 30, 2012. The final reports on the audited financial statements of the Employees' Retirement System of the City of Norfolk shall be delivered to this entity, the Director of Finance and the City Auditor on or before December 17, 2012. One camera-ready copy of the School Board of the City of Norfolk and the Employees' Retirement System of the City of Norfolk's CAFR shall be prepared by those entities and submitted for print by November 30, 2012, time being of the essence in this Agreement. Should personnel not comply with the deadlines specified in the **THIRD** section above, or otherwise not provide cooperation necessary for the Auditor to perform its services, the Auditor shall be permitted an extension of the deadline for completion of the fieldwork and workpaper review required in connection with the audits of the financial statements included in the CAFR. The length of the extension shall be

subject to the written approval of the City Auditor, based on periodic consultation with the responsible personnel of applicable entities and the Auditor on the status and progress of the audits, and shall be for a period of time commensurate with the time by which personnel missed specific deadlines or otherwise caused the delay in the performance of services by the Auditor.

EIGHTH: The City shall prepare its own CAFR, and separately issued Water Utility, Wastewater Utility and Parking Funds reports, including the schedule of federal financial assistance programs, suitable for reproduction. The Auditor shall deliver to the Director of Finance and City Auditor, under separate covers, all audit opinions related to the City of Norfolk's annual audit, including the individual reports for the Water Utility, Wastewater Utility and the Parking Funds. The Auditor shall also deliver all audit opinions related to the annual audits of the School Board of the City of Norfolk and the Norfolk Employees' Retirement System of the City of Norfolk to the respective entities. The Auditor shall deliver bound audit reports for the Norfolk Community Services Board and the Economic Development Authority of the City of Norfolk. The Auditor's opinions and reports shall be addressed and delivered, as follow:

Agency	Addressed to
1. City of Norfolk	The Honorable City Council Norfolk, Virginia
2. School Board of the City	The Chairman and Members of the School Board, Norfolk, Virginia
3. Employees' Retirement System	The Board of Trustees of the Employees' Retirement System of the City of Norfolk Norfolk, Virginia
4. Economic Development Authority	Board of Trustees of the Economic Development Authority of Norfolk Norfolk, Virginia
5. Norfolk Community Services Board	Norfolk Community Services Board, Norfolk, Virginia

At the conclusion of the engagement, management of the City, the School Board of the City of Norfolk, the Economic Development Authority of the City of Norfolk, the Norfolk Community Services Board, and the Employees' Retirement System of the City of Norfolk will provide to the Auditor a representation letter that, among other things, will confirm management's responsibility for the preparation of the basic financial statements in conformity with accounting principles generally accepted in the United States of America, the availability of all financial records and related data, the completeness and availability of all minutes of the Council, management's responsibility for the entity's compliance with laws and regulations, the identification and disclosure to the Auditor of all laws and regulations that have a direct and material effect on the determination of financial statement amounts, and to the best of its

knowledge and belief, the absence of irregularities involving management or those employees who have significant roles in the internal control process and management's responsibility for State agreed upon requirements by confirming management's responsibility for the sufficiency of the agreed-upon procedures for its purposes and the fair presentation of the specified elements, accounts, or items. Also, management is to affirm to the Auditor that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. Additionally, representations will be made as to the financial reporting entity's basic financial statements to be audited; the inclusion of all component units and the disclosure of all joint ventures and other related organizations; the proper classification of funds and account groups; the proper approval of reserves or designations of fund equities; compliance with laws and regulations, including budget laws or ordinances; compliance with any tax or debt limits, including any related debt covenants; representations relative to GASB-required supplementary information; and identification of all federal assistance programs, if applicable, and compliance with all related grant requirements.

To the extent permitted by law, the City hereby indemnifies the Auditor and its partners, principals and employees, and holds them harmless from all claims, liabilities, losses, and costs arising in circumstances where there has been a knowing misrepresentation by a member of the City's management, regardless of whether such person was acting in the City's interest.

As part of this engagement, the Auditor will ensure that certain additional matters are communicated to the Director of Finance, the City Manager, the City Auditor, the Audit Committee, and the City Council. Also, applicable matters should be reported to the School Board of the City of Norfolk, the Economic Development Authority of the City of Norfolk, the Norfolk Community Services Board, the Employees' Retirement System of the City of Norfolk, and the Norfolk Sheriff and their respective management. Certain additional matters include (1) the initial selection of and changes in significant accounting policies and their application; (2) the methods used by management to account for significant unusual transactions; (3) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus; (4) the process used by management in formulating particularly sensitive accounting estimates and the basis for their conclusions regarding the reasonableness of those estimates; (5) audit adjustments and/or uncorrected misstatements that could, in the Auditor's judgment, either individually or in the aggregate, have a significant effect on the Auditor's financial reporting process; (6) any disagreements with management, whether or not satisfactorily resolved, about matters that individually or in the aggregate could be significant to the financial statements or Auditor's report; (7) the Auditor's views about matters that were the subject of management's consultation with other accountants about auditing and accounting matters; (8) major issues that were discussed with management in connection with the retention of Auditor's services, including, among other matters, any discussions regarding the application of accounting principles and auditing standards; and (9) serious difficulties that the Auditor encountered in dealing with management related to the performance of the audits.

The Auditor will also read minutes, if any, of audit committee meetings for consistency with our understanding of the communications made to the audit committee and determine that the audit committee has received copies of all material written communications between the Auditor and management.

NINTH: The Auditor shall present the CAFR to the Audit Committee and City Council based upon an agreed date. The Auditor shall prepare and submit to the Director of Finance and the City Auditor, under separate covers, a preliminary draft of the management letter report. The Auditor shall complete the final management letter report, which will include comments resulting from evaluating the City's internal control framework and assessing control risks, and shall deliver it by December 19, 2012 to the Director of Finance and the City Auditor, under separate covers, for submission to the City Manager and acceptance by City Council.

Similarly, the CAFR for the School Board of the City of Norfolk and the Employees' Retirement System of the City of Norfolk shall have presented to their respective boards based upon an agreed upon date.

TENTH: The foregoing Auditor deadlines shall be subject to the Auditor's receipt of City data in usable form and the Auditor's access to knowledgeable City personnel in accordance with deadlines established throughout this Agreement

ELEVENTH: The Auditor shall formally communicate weekly during the engagement with the Director of Finance, Chief Finance Officer of the Norfolk Public Schools, and the City Auditor through meetings or telephone conference, the status of the audit engagement. The Auditor is to communicate with the City Director of Finance and the City Auditor on every Monday and with the Norfolk Public Schools Associate Superintendent of Finance and the City Auditor every Tuesday or at and alternative agreed upon time. As a minimum, the nature of the communication should address any issues or problems requiring immediate attention and action, delays, outstanding documentation requests, foreseen expanded services or scope adjustments (subject to provisions set forth in the **TWELFTH** paragraph), needed deadline changes (subject to provisions set forth in the **TWELFTH** paragraph), and status of the audit process to include partners' review. Other entities covered by this Agreement may mutually agree with the Auditor as to details of any communication requirements.

TWELFTH: That for the services performed by the Auditor in making the aforementioned audits of the various funds of the City of Norfolk to include Waterside Associates Limited Partnership, the Norfolk Community Services Board, the School Board of the City of Norfolk, the Economic Development Authority of the City of Norfolk, the Employees' Retirement System of the City of Norfolk, federal awards (single audit, including the review and completion of the Data Collection Form), agreed upon procedures for the Norfolk Sheriff's Office Jail Canteen Fund, and Agreed upon procedures with respect to selected records and transactions pertaining to the Campostella Landfill, including the preparation and issuance of their separate individual reports, plus the agreed upon procedures report relating to the Comparative Cost Report Transmittal Forms, including the preparation and issuance of an independent accountant's report, the City shall pay a sum not to exceed Five Hundred Eight Thousand Dollars ($508,000), except as noted in paragraphs three and four of this Twelfth section related to additional single audit programs.

The Auditor shall bill the City separately for the services performed in the aforementioned audit, including the preparation and issuance of its separate, Independent Auditor's Report. The City shall pay a sum not to exceed One Hundred Forty Three Thousand Four Hundred Dollars ($143,400); this amount is exclusive of the fees for the single audit.

The Auditor shall bill the City and School Board of the City of Norfolk separately for the services performed in the aforementioned audit of federal financial assistance programs as required by OMB Circular A-133 (single audit), including the preparation and issuance of its Independent Auditor's Report. The City and School Board of the City of Norfolk shall pay a sum for these services not to exceed Seventy Five Thousand Six Hundred Dollars ($75,600) and Fifty Thousand Four Hundred Dollars ($50,400), respectively. Twelve programs are included in these fees. For each additional audit program, the City and School Board of the City of Norfolk shall pay a sum not to exceed Ten Thousand Five Hundred Dollars ($10,500).

The Auditor shall bill the City separately for the services performed in the aforementioned audit in conjunction with the Employees' Retirement System of the City of Norfolk, including the preparation and issuance of its Independent Auditor's Report. The City shall pay a sum not to exceed Twenty Five Thousand Dollars ($25,000).

The Auditor shall bill the School Board of the City of Norfolk separately for the services performed in the aforementioned audit, including the preparation and issuance of its Independent Auditor's Report, which includes the audit of the CAFR level Student Activity Fund balance. The School Board of the City of Norfolk shall pay a sum not to exceed Eighty Six Thousand Six Hundred Dollars ($86,600), and Fifteen Thousand Two Hundred Dollars ($15,200), respectively; these amounts are exclusive of the fees for the single audit.

The Auditor shall bill the Economic Development Authority of the City of Norfolk separately for the services performed in the aforementioned audit, including the preparation and issuance of its Independent Auditor's Report. The Economic Development Authority of the City of Norfolk shall pay a sum not to exceed Eleven Thousand Dollars ($11,000).

The Auditor shall bill the Norfolk Community Services Board separately for the services performed in the aforementioned audit, including the preparation and issuance of its Independent Auditor's Report. The Norfolk Community Services Board shall pay a sum not to exceed Twenty Five Thousand Dollars ($25,000).

The Auditor shall bill the City separately for the services performed in the aforementioned audit as required by the Auditor of Public Accounts (APA), Commonwealth of Virginia, specifications for Counties, Cities and Towns. The City shall pay a sum not to exceed Ten Thousand Dollars ($10,000).

The Auditor shall provide separate billings for the services performed in the audits of the City's Water Utility, Wastewater Utility and Parking Facilities Enterprise Funds. The City shall pay the sums not to exceed Twenty Six Thousand Dollars ($26,000), Sixteen Thousand Dollars ($16,000), and Twenty Thousand Dollars ($20,000), respectively.

For the services performed by the Auditor in the preparation and issuance of the Comparative Cost Letter, the City shall pay a sum not to exceed Two Thousand Dollars ($2,000).

For the services performed by the Auditor in the preparation and issuance of the Debt Compliance Opinions (debt terms, covenants, provisions, or conditions compliance opinions) based on and upon completion of the audits of the City's Water Utility and Parking Facilities

Enterprise funds, and the Virginia Resources Authority - Virginia Water Facilities Revolving Funds, the City shall pay a sum not to exceed Twenty Thousand Dollars ($20,000) for each consent or at a negotiated lower amount if such services are not material.

For the services performed by the Auditor pertaining to specific agreed-upon procedures for the City of Norfolk with respect to the financial component, financial ratios and other requirements of the Department of Environment Quality Financial Assurance regulations for local governments who own or operate Municipal Solid Waste landfills for the year ended June 30, 2012, the City shall pay a sum not to exceed One Thousand Eight Hundred Dollars ($1,800).

Should the scope of services expand for the work performed by the Auditor beyond provisions set forth in the FIRST section of this Agreement or the City and its entities do not meet the established deadlines related to preparation of workpapers and financial statements, additional compensation will be allowed in accordance with a mutually agreed upon written amendment to this Agreement, and subject to the authorization of the City Auditor, based on consultation with the City Director of Finance of the City of Norfolk or the Norfolk Public Schools Associate Superintendent of Finance of the Norfolk Public Schools, as applicable. The Auditor shall report all proposed expanded services or scope adjustments, with a reasonable estimate of billable hours priced at a negotiated hourly rate or fee not to exceed One Hundred Twenty Dollars ($120) per hour and not less than One Hundred Dollars ($100) per hour, on a weekly basis as the work progresses with respect to overages resulting from delays or missed deadlines and prior to the commencement of work for any other scope changes. Any billings for extended or expanded services or scope adjustments will be submitted to the City Auditor for written approval prior to payment. It is not anticipated that significant overages will occur.

THIRTEENTH: By January 31, 2013, upon completion of all annual audit services, the Auditor shall provide to the City Auditor and Director of Finance, under separate covers, a detailed report of employee hours utilized during the conduct of each entity's audit.

FOURTEENTH: That progress payments shall be made monthly, with total progress payments not to exceed Eighty percent (80%) of the amount set forth in the **TWELFTH** section above. Eighteen percent (18%) will be retained until the Auditor of Public Accounts, Commonwealth of Virginia, approves the City's CAFR or the expiration of thirty (30) days after the completed audit report has been delivered to the Auditor of Public Accounts, Commonwealth of Virginia, with the remaining Two percent (2%) balance paid upon completion of the continuing professional education seminar(s) as stated in the **EIGHTEENTH** section below.

FIFTEENTH: In the event the Auditor shall fail to properly perform each and every material provision of this Agreement, the City shall have the right to terminate this Agreement, in accordance with the procedure in the **FOURTH** section, above, or may cause said audits, or any of them, to be made and/or completed by another (other) certified public accountant(s) at the cost and expense of the Auditor, but only to the extent of any fees paid to the Auditor, and the City shall further have the right to apply any sum that may be due to the Auditor toward the payment of the cost and expense for making and/or completing the audits. Under such circumstance, the Auditor shall make available its working papers to the new auditor consistently with applicable professional standards. It is provided, however, that nothing contained in this Agreement will preclude the City from availing itself of any legal or equitable remedy in this event of a breach.

SIXTEENTH: The audit workpapers for this engagement are the property of the Auditor and constitute confidential information. The City Auditor will be informed of any subpoena or legal requests for access to the audit workpapers prior to making them available to requesting parties, unless such notification is prohibited by law or regulation.

The Auditor, as well as all other major accounting firms, participates in a "peer review" program, covering audit and accounting practices. This program requires that once every three years the Auditor subjects its quality assurance practices to an examination by another accounting firm. As part of the process, the other firm will review a sample of the Auditor's work. It is possible that the work the Auditor performs for the City may be selected by the other firm for review. If it is, they are bound by professional standards to keep all information confidential. The City does not object to having the work the Auditor performs being reviewed by the peer reviewer.

In the event the Auditor is requested pursuant to subpoena or other legal process to produce its documents relating to this engagement for the City in judicial or administrative proceedings to which the Auditor is not a party, the City shall reimburse the Auditor at the billing rates included in Section Twelve for its professional time and expenses, including reasonable attorney's fees, incurred in responding to such requests. The Auditor shall retain the audit workpapers and copies of the audit reports for a minimum of three years from the date of the audit reports unless the Auditor is notified in writing by the cognizant federal agency of the need to extend the retention period. The completed audit workpapers shall be made available pursuant to authority given to it by law or regulation upon request from the cognizant federal agency (Department of Housing and Urban Development) or its designees, the U. S. General Accounting Office or its designees, the Auditor of Public Accounts, Commonwealth of Virginia or the City Auditor. If requested, access to such working papers will be provided under the supervision of the Auditor's personnel. Furthermore, upon request, the Auditor may provide photocopies of selected working papers to the above-mentioned agencies. The agencies may intend, or decide, to distribute the photocopies or information contained therein to others, including other governmental agencies.

Should the Auditor not be hired to perform the audit for the next year, the Auditor is to make available audit workpapers to the successor auditor hired by the City consistently with applicable professional standards.

During the course of the engagement, the Auditor may accumulate records, i.e., account analysis, schedules, bank reconciliations, etc., containing data which should be reflected in the City's books and records. The City will determine that all such data, if necessary, will be so reflected. Accordingly, the City does not expect the Auditor to maintain copies of such records in the Auditor's possession.

The Auditor shall deliver to the Director of Finance and the City Auditor, prior to delivery of the CAFR, for all funds, a copy of all of the audit adjustments, which were generated by the Auditor in the preparation of the audited financial statements.

SEVENTEENTH: Government Auditing Standards require that the Auditor communicate the results of its most recent external quality control review to the City. The

Auditor's most recent review was for the year ended March 31, 2011, report dated December 2, 2011. That report resulted in an unqualified opinion on the Auditor's system of quality control. A copy of said report will be provided to the City Auditor upon execution of this Agreement.

EIGHTEENTH: That the Auditor shall make available to all City employed certified public accountants and responsible financial personnel in-house governmental auditing and accounting seminar(s) or course(s) to be conducted within the boundaries of the City, tuition-free, with the accumulative equivalent of eight (8) continuing professional education (CPE) hours, in compliance with the Virginia Board for Accountancy's CPE requirements. It is hereby agreed that the course(s) shall be conducted by the Auditor or one of their contracted agents no later than June 28, 2013 with consideration given to suggestions by the City of possible topic areas.

NINETEENTH: In the event that the City requests additional services, this Agreement may be further amended upon written agreement of the Auditor and the City, such additional services may include bond offering services for statements or opinions required to facilitate issuance of bonds, financial advisory services or consulting services that draw upon the Auditor's knowledge of the City's accounting records and finances. It is hereby agreed that such additional services, if deemed necessary, shall be priced according to terms set forth in the **TWELFTH** section or at an agreed upon amount in advance of the services to be rendered.

TWENTIETH: It is agreed by the City and the Auditor or any successors in interest that no claim by or on behalf of either party arising out of services rendered pursuant to this Agreement shall be asserted more than five (5) years after the date of the audit report or termination of Agreement.

TWENTY-FIRST: If circumstances relating to the condition of the City's records and/or the availability of sufficient, competent, evidential matter were to arise during the course of the Auditor's work, which in the Auditor's professional judgment, prevents it from completing the audit, the Auditor will notify the City Auditor immediately in writing for resolution. If no mutually agreed-upon resolution can be obtained, the Auditor retains the unilateral right to take any course of action permitted by professional standards, including withdrawal from the engagement.

TWENTY-SECOND: In connection with required compliance with the Health Insurance Portability and Accountability Act (HIPAA), the Auditor agrees to sign an appropriate Business Associate Agreement to provide certain assurances concerning the safeguarding of protected health information that may be obtained during the course of the audit.

TWENTY-THIRD: Ethics in Public Contracting. The Auditor hereby certifies that it has familiarized itself with Sections 33.1-86 through 33.1-93 of the Code of the City of Norfolk, Virginia, 1979, as amended, entitled "Ethics in Public Contracting," and further that all amounts received by the Auditor pursuant to this Agreement are proper and in accordance therewith.

TWENTY-FOURTH: Non-discrimination. The Auditor agrees that its work under this Agreement shall comply with Section 33.1-53 of the Code of the City of Norfolk, Virginia, 1979, as amended, entitled "Employment Discrimination by Contractor Prohibited."

TWENTY-FIFTH: Insurance. The Auditor agrees to maintain professional liability insurance and commercial general liability and workers' compensation insurance in compliance with the Auditors' Proposal dated April 20, 2012.

[remainder of page intentionally left blank]

WITNESS the following signatures:

CITY OF NORFOLK

By: _____
City Manager

Date: 7/6/12

ATTEST:

_____ 7-6-12
City Clerk Date

KPMG LLP

By: Robert Churchman

Title: Partner

Date: 6/29/12

CONTENTS APPROVED:

_____ 6/29/12
City Auditor Date

_____ 6/29/12
Director of Finance Date

FORM AND CORRECTNESS APPROVED:

_____ 6/28/12
Deputy City Attorney Date

NORFOLK

Office of the City Manager

May 15, 2015

KPMG LLP
Attn: Ms. Cheryl Xystros, Partner
440 Monticello Ave
Suite 1900
Norfolk, Virginia 23510

Re: Agreement of Renewal #3 – Contract 13372, dated July 6, 2012.
Our File No.: 2014-163210-CSP-CT

Dear Ms. Xystros:

This letter is to inform you that the City of Norfolk ("City") hereby exercises its option to renew Contract 13372 ("Agreement") with KPMG LLP. The term of this renewal ("Agreement of Renewal #3) shall be from July 1, 2015 until June 30, 2016. As you are aware, there are no more renewal options available under the Agreement following this Agreement of Renewal #3.

In accordance with the terms of paragraphs FOURTH and TWELFTH of the Agreement, the City shall provide compensation, for services under this Agreement of Renewal #3, which shall not exceed the total of sums described in the following table:

City of Norfolk	$ 294,294
City of Norfolk-Single Audit	81,969
School Board	129,962
School Board-Single Audit	54,646
Economic Development Authority	11,927
Employees' Retirement System	30,706
Renewal #3 Total Compensation	**$ 603,504**

The last paragraph of the **TWELFTH** section of the Agreement is hereby amended and shall read as follows:

"If services for the audit extend beyond November 30, 2015, then the Auditor's fee for service provided after that date shall be increased by $50 per hour and if services extend beyond December 31, 2015 then the rate shall increase by $100 per hour for services rendered after that date. Should the scope of services expand for the work performed by the Auditor beyond provisions set forth in the FIRST section of this Agreement, additional compensation will be

810 Union Street, #1101 • Norfolk, VA 23510
Phone: 757-664-4242 • Fax: 757-664-4239

allowed in accordance with a mutually agreed upon written amendment to this Agreement, and subject to the authorization of the City Auditor, based on consultation with the City Director of Finance of the City of Norfolk or the Norfolk Public Schools Associate Superintendent of Finance of the Norfolk Public Schools, as applicable. The Auditor shall report all proposed expanded services or scope adjustments, with a reasonable estimate of billable hours priced at a negotiated hourly rate or fee not to exceed One Hundred Twenty Dollars ($120) per hour and not less than One Hundred Dollars ($100) per hour, on a weekly basis as the work progresses with respect to overages resulting from delays or missed deadlines and prior to the commencement of work for any other scope changes. Any billings for extended or expanded services or scope adjustments will be submitted to the City Auditor for written approval prior to payment. It is not anticipated that significant overages will occur. However, the $50 rate increase for hours incurred after November 30, 2015 and the $100 rate increase for hours incurred after December 31, 2015 will also be applied to any overages incurred after those dates. In addition, if the audit is not completed by January 20, 2016, due to City delays, KPMG may not have available personnel to complete the audit until after April 1, 2016. KPMG will make every effort to complete the audit as soon as possible."

All of the terms and conditions of the Agreement that are consistent with this Agreement of Renewal #3 and all attachments, if any, to the Agreement shall remain the same and are herein incorporated by reference. However, the last paragraph of the **TWELFTH** section of the Agreement is hereby amended and shall read as follows:

In performance under this Agreement of Renewal #3, KPMG LLP shall comply with all applicable federal, state and local laws and regulations.

The execution of this Agreement of Renewal #3 shall indicate acceptance of its terms and conditions. Please sign this letter where indicated below and return it. A fully endorsed copy will be returned for your record.

Sincerely,

CITY OF NORFOLK

By: _____
Marcus D. Jones
City Manager

ATTEST:

_____ 6/1/15
City Clerk Date

KPMG LLP

By: _____
Print Name: Cheryl L. Xystris
Print Title: Partner

CONTENT APPROVED:

Norfolk City Auditor

Director of Finance

FORM AND CORRECTNESS APPROVED:

Deputy City Attorney

CERTIFICATE OF FUNDING

I hereby certify that the money required for this Agreement of Renewal #3 is in the City Treasury to the credit of the fund from which it is to be drawn and not appropriated for any other purpose.

AMOUNT: $ _____
ACCOUNT NO: _____
CONTRACT NO: _____
VENDOR NO: _____
BUSINESS LICENSE NO: _____

see page 4

Director of Finance Date

CERTIFICATE OF FUNDING

I hereby certify that the money required for this Agreement is in the City Treasury to the credit of the fund from which it is to be drawn and not appropriated for any other purpose.

GENERAL FUND
AMOUNT: $302,705
ACCOUNT NO: 1000 -4-070-178-5307

HEALTH CARE FUND
AMOUNT: $5,000
ACCOUNT NO: 6700-67-670-5307- ACT 669

RETIREMENT
AMOUNT: $30,706
ACCOUNT NO: 1000 -4-050-168-5307

WATER UTILITY FUND
AMOUNT: $28,191
ACCOUNT NO: 5300-33-010-676-5307

WASTEWATER UNTILITY FUND
AMOUNT: $17,348
ACCOUNT NO: 5200-34-100-706-5307

PARKING FUND
AMOUNT: $21,685
ACCOUNT NO: 5100-38-001-728-5307

STORM WATER FUND
AMOUNT: $1,334
ACCOUNT NO: 2300-35-010-712-5307

CONTRACT NO: 13372H

VENDOR NO: KPMG, LLC

Total City Amount: $406,969

Contract Number: 13372H

Vendor Code: KPMG, LLP

Alice M. Kelly 5/19/15

Director of Finance Date

* As part of the audit contract the School Board and Economic Development Authority are paid for by these entities:

School Board $184,608

EDA $11,927

Total Contract Amount: $603,504

THE CITY OF NORFOLK

December 23, 2015

KPMG LLP
440 Monticello Avenue
Suite 1900
Norfolk, VA, 23510

Ladies and Gentlemen:

We are providing this letter in connection with your audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, the aggregate remaining fund information, and the related notes to the financial statements, of the City of Norfolk, Virginia, (the City) as of and for the year ended June 30, 2015, for the purpose of expressing opinions as to whether these financial statements present fairly, in all material respects, the respective financial positions, changes in financial positions, and, where applicable, cash flows thereof in accordance with U.S. generally accepted accounting principles. We are also providing this letter to confirm our understanding that the purpose of your testing of transactions and records relating to the City's federal programs (A-133 audit) was to obtain reasonable assurance that the City had complied, in all material respects, with the requirements of laws, regulations, contracts and grants that could have a material effect on each of its major general programs to the year ended June 30, 2015.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purposes of appropriately informing ourselves, the following representations made to you during your audits:

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated July 6, 2012, the Amendment for Renewal #1 dated May 6, 2013, the Amendment for Renewal #2 dated May 5, 2014, and the Amendment for Renewal #3 dated May 15, 2015, for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles.

2. We have made available to you:

    a. All records, documentation, and information that is relevant to the preparation and fair presentation of the financial statements.

b. Unrestricted access and the full cooperation of personnel within the entity from whom you determined it necessary to obtain audit evidence.

c. All minutes of the meetings of the City Council, or summaries of actions of recent meetings for which minutes have not yet been prepared.

3. Except as disclosed to you in writing, there have been no:

a. Circumstances that have resulted in communications from the City's legal counsel to the City reporting evidence of a material violation of securities law or breach of fiduciary duty, or similar violation by the City or any agent thereof.

b. Communications from regulatory agencies, governmental representatives, employees, or others concerning investigations or allegations of noncompliance with laws and regulations in any jurisdiction, deficiencies in financial reporting practices, or other matters that could have a material adverse effect on the financial statements.

4. There are no:

a. Violations or possible violations of laws or regulations, whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

b. Unasserted claims or assessments that our lawyers have advised us are probable of assertion and must be disclosed in accordance with paragraphs 96 – 113 of Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.*

c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Statement No. 62, paragraphs 96 – 113.

d. Material transactions, for example, grants and other contractual arrangements, that have not been properly recorded in the accounting records underlying the financial statements.

e. Events that have occurred subsequent to the date of the statement of net position and through the date of this letter that would require adjustment to or disclosure in the financial statements.

5. All known actual or possible litigation and claims have been accounted for and disclosed in accordance with GASB Statement No. 62, paragraphs 96 – 113.

6. There are no uncorrected financial statement misstatements to be included on a schedule of uncorrected financial statement misstatements.

7. We acknowledge our responsibility for the design, implementation and maintenance of programs and controls to prevent and detect fraud; for adopting sound accounting policies; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements and to provide reasonable assurance against the possibility of misstatements that are material to the financial statements whether due to error or fraud. We understand that the term "fraud" includes misstatements arising from fraudulent financial reporting and misstatements arising from misappropriation of assets.

Misstatements arising from fraudulent financial reporting are intentional misstatements, or omissions of amounts or disclosures in financial statements to deceive financial statement users. Misstatements arising from misappropriation of assets involve the theft of an entity's assets where the effect of the theft causes the financial statements not to be presented in conformity with U.S. generally accepted accounting principles.

8. We have disclosed to you all deficiencies in the design or operation of internal control over financial reporting of which we are aware, which could adversely affect the City's ability to initiate, authorize, record, process, or report financial data. We have separately disclosed to you all such deficiencies that we believe to be significant deficiencies or material weaknesses in internal control over financial reporting, as those terms are defined in AU-C Section 265, *Communicating Internal Control Related Matters Identified in an Audit*.

9. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

10. We have no knowledge of any fraud or suspected fraud affecting the City's financial statements involving:

    a. Management;

    b. Employees who have significant roles in internal control over financial reporting; or

    c. Others where the fraud could have a material effect on the financial statements.

11. We have no knowledge of any allegations of fraud or suspected fraud affecting the City's financial statements received in communications from employees, former employees, analysts, regulators or others.

12. The City has no plans or intentions that may materially affect the carrying value or classification of assets, deferred outflows of resources, liabilities and deferred inflows of resources.

13. We have no knowledge of any officer or member of the City Council, or any other person acting under the direction thereof, having taken any action to fraudulently influence, coerce, manipulate or mislead you during your audit.

14. The following have been properly recorded or disclosed in the financial statements:

    a. Related party relationships and transactions of which we are aware in accordance with the requirements of U.S. generally accepted accounting principles, including sales, purchases, loans, transfers, leasing arrangements, guarantees, ongoing contractual commitments, and amounts receivable from or payable to related parties.

       The term "related party" refers to government's related organizations, joint ventures, and jointly governed organizations, as defined in GASB Statement No. 14, *The Financial Reporting Entity, as amended*; elected and appointed officials of the government; its management; members of the immediate families of elected or appointed officials of the government and its management; and other parties with which the government may deal if one party can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests. Another party also is a related party if it can significantly influence the

management or operating policies of the transacting parties or if it has an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.

b. Guarantees, whether written or oral, under which the City is contingently liable.

c. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, lines of credit or similar arrangements.

d. Agreements to repurchase assets previously sold, including sales with recourse.

e. Changes in accounting principle affecting consistency.

f. The existence of and transactions with joint ventures and other related organizations.

15. The City has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets, nor has any asset been pledged as collateral, except as disclosed in the financial statements or notes to the financial statements.

16. The City has complied with all aspects of laws, regulations, contractual agreements, donor restrictions, and grants that may affect the financial statements, including noncompliance.

17. Management is responsible for compliance with the laws, regulations, donor restrictions, and provisions of contracts and grant agreements applicable to the City. Management has identified and disclosed to you all laws, regulations, donor restrictions, and provisions of contracts and grant agreements that have a direct and material effect on the determination of financial statement amounts.

18. The City's reporting entity includes all entities that are component units of the City. Such component units have been properly presented as either blended or discrete. Investments in joint ventures in which the City holds an equity interest have been properly recorded on the statement of net position. The financial statements disclose all other joint ventures and other related organizations.

19. The financial statements properly classify all funds and activities, including governmental funds, which are presented in accordance with the fund type definitions in GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

20. All funds that meet the quantitative criteria in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, for presentation as major are identified and presented as such, and all other funds that are presented as major are considered to be particularly important to financial statement users by management.

21. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.

22. Amounts advanced to related entities represent valid receivables and are expected to be recovered at some future date in accordance with the terms of related agreements.

23. Receivables reported in the financial statements represent valid claims against debtors arising on or before the date of the statement of net position and have been appropriately reduced to their estimated net realizable value.

24. Deposits and investment securities are properly classified and reported.

25. The City is responsible for the fair value of certain investments as required by GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools,* as amended. The amounts reported represent the City's best estimate of fair value of investments required to be reported under the Statement. The City also has disclosed the methods and significant assumptions used to estimate the fair value of its investments, and the nature of investments reported at amortized cost.

26. The City has identified and properly reported all of its derivative instruments and any related deferred outflows of resources or deferred inflows of resources related to hedging derivative instruments in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments.* The City complied with the requirements of GASB Statement No. 53 related to the determination of hedging derivative instruments and the application of hedge accounting. Further, the City has disclosed all material information about its derivative and hedging arrangement in accordance with GASB Statement No. 53.

27. The following information about financial instruments with off-balance-sheet risk and financial instruments with concentrations of credit risk has been properly disclosed in the financial statements:

    a. The extent, nature, and terms of financial instruments with off-balance-sheet risk;

    b. The amount of credit risk of financial instruments with off-balance-sheet credit risk, and information about the collateral supporting such financial instruments; and

    c. Significant concentrations of credit risk arising from all financial instruments and information about the collateral supporting such financial instruments.

28. We believe that all material expenditures or expenses that have been deferred to future periods will be recoverable.

29. Capital assets, including infrastructure assets, are properly capitalized, reported and, if applicable, depreciated. All jointly owned assets are appropriately recorded as City and School Board assets.

30. The City and Schools have mutually agreed that all School's buildings improvements, irrespective of financing source, are recorded on the City's general ledger. Consequently, no School's buildings or building improvements are recorded within the School's general ledger.

31. The City has properly applied the requirements of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets,* including those related to the recognition of outlays associated with the development of internally generated computer software.

32. The City has no:

    a. Commitments for the purchase or sale of services or assets at prices involving material probable loss.

    b. Material amounts of obsolete, damaged, or unusable items included in the inventories at greater than salvage values.

    c. Loss to be sustained as a result of other-than-temporary declines in the fair value of investments.

33. For variable-rate demand bond obligations that are reported as general long-term debt or excluded from current liabilities of proprietary funds, we believe all of the conditions described in GASB Interpretation No. 1, *Demand Bonds Issued by State and Local Government Entities,* have been met.

34. The City has complied with all tax and debt limits and with all debt related covenants.

35. We have received opinions of counsel upon each issuance of tax-exempt bonds that the interest on such bonds is exempt from federal income taxes under section 103 of the Internal Revenue Code of 1986, as amended. There have been no changes in the use of property financed with the proceeds of tax-exempt bonds, or any other occurrences, subsequent to the issuance of such opinions, that would jeopardize the tax-exempt status of the bonds. Provision has been made, where material, for the amount of any required arbitrage rebate.

36. We believe the actuarial assumptions and methods used to measure financial statement liabilities and costs associated with other post-employment benefits and to determine information related to the City's funding progress related to such benefits for financial reporting purposes are appropriate in the City's circumstances and the related actuarial valuation was prepared in conformity with U.S. generally accepted accounting principles.

37. For each defined benefit pension plan in which the City is a participating employer:

    a. The net pension liability, related deferred outflows of resources, deferred inflows of resources, and pension expense has been properly measured and recorded as of the measurement date in accordance with the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*.

    b. All relevant plan provisions in force as of the measurement date have been properly reflected in the measurement of the net pension liability and pension expense.

    c. We believe the actuarial assumptions and methods used to measure the net pension liability and pension expense are appropriate in the circumstances and the related actuarial valuation was prepared in conformity with U.S. generally accepted accounting principles.

    d. The participants' data provided to the actuary for purpose of determining the net pension liability and pension expense is materially accurate and complete.

    e. The basis for our proportion of the collective pension amounts is appropriate and consistent with the manner in which contributions to the pension plan are determined.

    f. The net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense have been properly allocated to proprietary and fiduciary funds based on each fund's direct and indirect (for example, through a fringe benefit cost recovery rate) payment of employer contributions relative to total employer contributions of the City as a whole.

38. Provision has been made in the financial statements for the City's pollution remediation obligations. We believe that such estimate has been determined in accordance with the provisions of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* and is reasonable based on available information.

39. The City has identified and properly accounted for and presented all deferred outflows of resources and deferred inflows of resources.

40. Components of net position (net investment in capital assets; restricted; and unrestricted) and fund balance components (nonspendable; restricted; committed; assigned; and unassigned) are properly classified and, if applicable, approved.

41. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.

42. The City has identified and properly accounted for all nonexchange transactions.

43. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.

44. Special and extraordinary items are appropriately classified and reported.

45. The financial statements disclose all of the matters of which we are aware that are relevant to the entity's ability to continue as a going concern, including significant conditions and events, and our plans.

46. We have disclosed to you all accounting policies and practices we have adopted that, if applied to significant items or transactions, would not be in accordance with U.S. generally accepted accounting principles. We have evaluated the impact of the application of each such policy and practice, both individually and in the aggregate, on the City's current period financial statements and our assessment of internal control over financial reporting, and the expected impact of each such policy and practice on future periods' financial reporting. We believe the effect of these policies and practices on the financial statements and our assessment of internal control over financial reporting is not material. Furthermore, we do not believe the impact of the application of these policies and practices will be material to the financial statements in future periods.

47. We agree with the findings of specialists in evaluating the self-insurance and pension other post-employment obligations and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists. We believe that the actuarial assumptions and methods used to measure pension liabilities and costs for financial accounting disclosure purposes provided by Virginia Retirement System in conjunction with their actuaries are appropriate.

48. We acknowledge our responsibility for the presentation of the supplementary information in accordance with the applicable criteria and/or prescribed guidelines and:

    a. Believe the supplementary information, including its form and content, is fairly presented in accordance with the applicable criteria.

    b. The methods of measurement or presentation of the supplementary information have not changed from those used in the prior period.

c. The significant assumptions or interpretations underlying the measurement or presentation of the supplementary information are reasonable and appropriate in the circumstances.

49. In accordance with *Government Auditing Standards*, we have identified to you all previous audits, attestation engagements, and other studies that relate to the objectives of this audit, including whether related recommendations have been implemented.

50. KPMG assisted management in drafting the financial statements and notes. In accordance with *Government Auditing Standards*, we confirm that we have reviewed, approved, and accept responsibility for the financial statements and notes.

51. We are responsible for establishing and maintaining effective internal control over compliance for federal programs that provides reasonable assurance that federal awards are administered in compliance with laws, regulations, and the provisions of contracts or grant agreements.

52. We are responsible for understanding and complying with the requirements of laws and regulations and the provisions of contracts and grant agreements related to each of the City's federal programs.

53. We are responsible for taking corrective action on audit findings of the compliance audit.

54. We are responsible for the design and implementation of programs and controls to prevent and detect fraud in the administration of federal programs. We have no knowledge of any fraud or suspected fraud affecting the entity's federal programs involving:

    a. Management, including management involved in the administration of federal programs.

    b. Employees who have significant roles in internal control over the administration of federal programs.

    c. Others where the fraud could have a material effect on compliance with laws and regulations, and provisions of contract and grant agreements related to its federal programs.

55. We are responsible for the presentation of the schedule of expenditures of federal awards (SEFA) in accordance with OMB Circular A-133 and:

    a. The methods of measurement or presentation of the supplementary information have not changed from those used in the prior period.

    b. The significant assumptions or interpretations underlying the measurement or presentation of the supplementary information are reasonable and appropriate in the circumstances.

Additionally, we confirm, to the best of our knowledge and belief, as of December 23, 2015, the following representations made to you during your A-133 audit:

56. The City is responsible for complying, and has complied, with the requirements of OMB Circular A-133.

57. The City has prepared the SEFA in accordance with the requirements of OMB Circular A- 133 and:

    a. Has included all expenditures made during the year ended June 30, 2015, for all awards provided by federal agencies in the form of grants, American Recovery and Reinvestment Act

(ARRA) awards, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance.

b. Appropriately identified and separated all ARRA awards, if any, within the SEFA.

58. The City has complied with requirements of laws and regulations, and the provisions of contracts and grant agreements related to each of its federal programs.

59. We have disclosed to you any interpretations of any compliance requirements that have varying interpretations.

60. The City has established and maintained effective internal control over compliance for federal programs that provides reasonable assurance that federal awards are administered in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on a federal program.

61. We have communicated to you all significant deficiencies and material weaknesses in the design or operation of internal control over compliance that we have identified, which could adversely affect the City's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, and the provisions of contracts and grant agreements. Under standards established by the American Institute of Certified Public Accountants, a deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and collect on a timely basis, noncompliance with a type of compliance requirement of a federal program. A "material weakness" is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected on a timely basis. A "significant deficiency" is a deficiency, or a combination of deficiencies, in internal control over compliance with a compliance requirement that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

62. We have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major federal program.

63. We have made available all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities related to major federal programs.

64. We have made available all documentation related to the compliance requirements, including information related to federal financial reports and claims for advances and reimbursements for major federal programs.

65. We have identified and disclosed to you all questioned costs and any known noncompliance with the requirements of federal awards, including the results of other audits or program reviews.

66. We have disclosed to you any communications from grantors and pass-through entities concerning possible noncompliance with the applicable compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditor's report.

67. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and collective actions taken from the end of the period covered by the compliance audit to the date of the auditor's report.

68. The City is in compliance with documentation requirements contained in OMB Circular A- 87, "Cost Principles for State, Local and Tribal Governments" for all costs charged to federal awards, including both direct costs and indirect costs charged through cost allocation plans or indirect cost proposals. Costs charged to federal awards are considered allowable under the applicable cost principles contained in OMB Circular A-87.

69. Federal financial reports and claims for advances and reimbursements are supported by the accounting records from which the financial statements have been prepared.

70. The copies of federal financial reports provided to you are true copies of the reports submitted, or electronically transmitted, to the federal agency or pass-through entity, as applicable.

71. We have monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of OMB Circular A-133. If applicable, the City has issued management decisions on a timely basis after receipt of subrecipient audit reports that identified noncompliance with laws, regulations, or the provisions of contracts or grant agreements and has ensured that subrecipients have taken appropriate and timely corrective action on such findings.

72. If applicable, we have considered the results of subrecipient audits and have made any necessary adjustments to the City accounting records.

73. We are responsible for, and have accurately prepared, the summary schedule of prior audit findings to include all findings required to be included by OMB Circular A-133.

74. If applicable, we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.

75. We have advised you of all contracts or other agreements with service organizations.

76. If applicable, the City has disclosed to you all communications from its service organizations.

77. We have disclosed any known noncompliance occurring subsequent to the period for which compliance is audited.

78. We have disclosed whether any changes in internal control over compliance or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies (including material weaknesses), have occurred subsequent to the date as to which compliance is audited.

Further, we confirm that we are responsible for the fair presentation in the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, and the related notes to the financial statements, in conformity with U.S. generally accepted accounting principles. We are also responsible for establishing and maintaining effective internal control over financial reporting.

Very truly yours,

City of Norfolk, Virginia

Marcus D. Jones

City Manager

Christine Garczynski

Acting Director of Finance

Company FY15 City of Norfolk - Go
Summary of Corrected Audit Misstatements
For Year Ended 6/30/2015

Amounts in Millions
Method Used to Quantify Audit Misstatements Income Statement Method (Roll Over)

KPMG notes the corrected audit misstatement impacts only the Governmental Activties balances

Detailed instructions on automatically populating the audit misstatements from the Tracker are provided in the "Instructions" tab.

							Income Statement Effect - Debit (Credit)	Balance Sheet Effect - Debit (Credit)					Cash Flow Effect - Increase (Decrease)			Statement of Comprehensive Income - Debit (Credit)
ID	**Description of misstatement**	**Type of misstatement**	**Identified During**	**Accounts**	**Debit**	**(Credit)**	**Income Effect Debit (Credit)**	**Equity**	**Current Assets**	**Noncurrent Assets**	**Current Liabilities**	**Noncurrent Liabilities**	**Operating Activities**	**Investing Activities**	**Financing Activities**	**Comprehensive Income**
				Total income effect of corrected audit misstatements – Interim			**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
AM-1	KPMG notes these FY15 fixed asset additions have not been entered into the fixed asset system and therefore deprecation has not commenced. Per discussion with Bea Ebner, Senior Accounting Manager, it is the City's policy not to enter additions in to the fixed asset system until after KPMG's audit has been completed. Due to the large amount of additions, specifically the Courthouse and Slover Library, in addition to other items, KPMG performed an analysis to determine the effect on depreciation expense that could be understated utilizing the most aggressive depreciation life per the City's policy for each item not included in the depreciation system at year-end (i.e., CIP Projects transferred to FA, equipment purchased with bond proceeds). The City of Norfolk booked an entry for depreciation related to Slover Library, Courthouse, and other improvements.	Factual	Final	Depreciable capital assets, net - Governmental activities	0	(2,644,400)	0	2,644,400	0	(2,644,400)	0	0	0	0	0	0
				Expenses -Governmental activities	2,644,400	0	2,644,400	0	0	0	0	0	0	0	0	2,644,400
				Total income effect of corrected audit misstatements – Final			**2,644,400**	**2,644,400**	**0**	**(2,644,400)**	**0**	**0**	**0**	**0**	**0**	**2,644,400**